

Message Text

CONFIDENTIAL

PAGE 01 STATE 065291

40

ORIGIN AF-06

INFO OCT-01 EUR-12 EA-06 ISO-00 EB-07 OPIC-03 ARA-06 L-02

CIAE-00 INR-07 NSAE-00 COME-00 TRSE-00 INT-05 XMB-02

SP-02 PA-01 PRS-01 USIA-06 CIEP-01 OMB-01 CEA-01 /070 R

DRAFTED BY AF/W:MGWYGANT:MR

APPROVED BY AF/W:JLLOUGHRAN

EB/IFD/OIA: DSTEBBING (DRAFT)

EA/ANP: MMICHAUD (SUBSTANCE)

OPIC/GC: AMARRA (SUBSTANCE)

EUR/CAN: DCHOLTON (INFO)

ARA/CAR: JRBURKE (INFO)

EUR/RPE: EHPREEG (INFO)

L/EB: SRBOND (INFO)

----- 056472

R 220100Z MAR 75

FM SECSTATE WASHDC

TO AMEMBASSY CANBERRA

INFO AMEMBASSY CONAKRY

AMEMBASSY OTTAWA

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY ROME

AMEMBASSY PARIS

C O N F I D E N T I A L STATE 065291

E.O. 11652: GDS

TAGS:EMIN, EINV, GV, US

SUBJECT: GUINEAN BAUXITE SITUATION

FOR CHARGE FROM AF/W

1. PER YOUR TELECON WITH BISHOP MARCH 17, FOLLOWING IS
OUTLINE OF BAUXITE TAX SITUATION. INR/RAF HAS POUCHED
IN 42, OF MARCH 10, ENTITLED "GUINEA: NEW TAX ON MINERAL
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 065291

EXPORTS" GIVING FULLER PRESENTATION OF THIS SUBJECT.

2. IN EARLY JANUARY 1975, PRESIDENT SEKOU TOURE UNILATERALLY ANNOUNCED EXPORT TAX ON BAUXITE AND ALUMINA INDEXED TO PRICE OF ALUMINUM INGOT. ALTHOUGH WESTERN BAUXITE MINING PARTNERS HAD PROPOSED TO GOG RAISING PRICE OF BAUXITE, GOG DID NOT CONSULT WITH THEM PRIOR TO IMPOSITION OF TAX. GUINEA'S ACTION WAS INFLUENCED BY DESPERATE NEED FOR FOREIGN EXCHANGE AND PERHAPS A DESIRE FOR CLOSER PRICE POLICY HARMONIZATION WITH OTHER BAUXITE PRODUCERS.

3. IN RECENT YEARS ALUMINA HAS BEEN GUINEA'S MAJOR EXPORT EARNER. GOG OWNS 49 PER CENT OF FRIGUIA, COUNTRY'S SOLE ALUMINA PRODUCER; THE OTHER 51 PER CENT IS VESTED IN INTERNATIONAL CONSORTIUM (FRIALCO) COMPOSED OF SEVERAL NON-US WESTERN FIRMS. UNTIL NOVEMBER 1974, US FIRM OLIN-MATHIESON WAS LARGEST FOREIGN SHAREHOLDER IN FRIALCO.

OLIN'S PREVIOUS EQUITY HAS BEEN PURCHASED BY NORANDA, A CANADIAN FIRM. OLIN CONTINUES TO HOLD APPROXIMATELY DOLS. 19 MILLION OF FRIGUIA DEBT, WHICH IS ALSO COVERED BY OPIC INSURANCE UNTIL 1978.

4. SECOND WESTERN CONSORTIUM, HALCO (IN WHICH TWO AMERICAN FIRMS MARTIN-MARIETTA AND ALCOA, AS WELL AS ALCAN, HAVE 74 PER CENT INTEREST), OWNS 51 PERCENT OF COMPANIE DES BAUXITES DE GUINEE (OTHER 49 PER CENT BEING OWNED BY GOG). CBG, WHICH AT PRESENT IS SOLELY BAUXITE MINING OPERATION, EXPORTED FOUR MILLION TONS IN 1974 AND PLANS TO INCREASE PRODUCTION TO NINE MILLION TONS IN NEXT FEW YEARS.

5. THIRD GUINEAN BAUXITE ENTERPRISE INVOLVES SOVIET INVESTMENT AT KINDIA. THIS MINE ENTERED PRODUCTION IN LATE 1974 WITH A PROJECTED ANNUAL CAPACITY OF THREE MILLION TONS. USSR TAKES 90 PER CENT OF KINDIA ORE, USING PROCEEDS TO REPAY CREDITS USSR PREVIOUSLY EXTENDED TO GUINEA.

6. BOTH FRIALCO AND HALCO OBJECTED TO IMPOSITION OF EXPORT TAX, CLAIMING IT CONTRARY TO BASIC AGREEMENTS. IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 065291

ADDITION, GOG HAS DEMANDED THAT FRIALCO GRANT GUINEAN COMPANY REPRESENTATIVE THE RIGHT TO COUNTERSIGN ALL AUTHORIZATIONS FOR EXPENDITURE OF FOREIGN EXCHANGE.

7. FINAL NEGOTIATING SESSION BETWEEN FRIALCO AND GOG HAS JUST CONCLUDED IN CONAKRY WITH SIGNATURE OF AGREEMENT COVERING BOTH FOREIGN EXCHANGE CONTROL AND EXPORT TAX ISSUES. FRIALCO AGREED TO PAY EXPORT TAX IN RETURN FOR

ASSURANCES (NOT CLEAR WHETHER ORAL OR WRITTEN) THAT NEW RATE WILL REMAIN UNCHANGED FOR FIVE YEARS. TAX PAYMENT WILL BE ABOUT DOLS. EIGHT PER TON OF EXPORTED ALUMINA. FRIALCO ALSO AGREED TO TWO SIGNATURE REQUIREMENT BUT WITH TWO MAJOR GOG CONCESSIONS: A) REQUIREMENT WILL NOT APPLY TO DEBT SERVICE; THIS WILL SAFEGUARD PAYMENTS TO OLIN-MATHIESON; AND B) IN CASES OF EMERGENCY ONLY ONE SIGNATURE--THAT OF PRIVATE SHAREHOLDERS REPRESENTATIVE-- WILL SUFFICE. PRACTICAL EFFECT OF LATTER CONCESSION REMAINS TO BE SEEN.

8. HALCO REPRESENTATIVES HAVE TOLD DEPT THEY ARE GREATLY CONCERNED ABOUT TAX AND CONSIDER IT IS A BREACH OF BASIC AGREEMENTS. HALCO HAS INFORMED GOG OF ITS RESERVATIONS IN WRITING BUT HAS NOT YET HAD THE OPPORTUNITY TO DISCUSS MATTER WITH GOG. HALCO PRESIDENT RECENTLY PROPOSED A MEETING WITH SEKOU TOURE TO DISCUSS TAX SITUATION. WE ARE

NOT AWARE OF ANY GUINEAN REPLY TO DATE. GUINEANS HAVE BILLED HALCO DOLS. FIVE MILLION FOR THREE MONTHS OF TAX (ESTIMATED TO BE ROUGHLY DOLS. SIX PER TON OF BAUXITE). HALCO INTENDS TO RESPOND THAT BILL WAS MISDIRECTED BECAUSE HALCO DOES NOT PURCHASE BAUXITE (ORE IS PURCHASED UNDER INDIVIDUAL CONTRACTS BETWEEN CBG AND ALUMINUM COMPANIES WHICH COMPOSE HALCO). WE EXPECT HALCO WILL BE NEGOTIATING WITH GOG BY EARLY APRIL REGARDING TAX MATTER. IN VIEW FRIALCO ACCEPTANCE GUINEAN TERMS, HEAVY PRESSURE WILL SHORTLY BE EXERTED ON HALCO TO AGREE TO EXPORT TAX. AS PRECAUTIONARY MEASURE REQUIRED BY OPIC INSURANCE CONTRACT, HALCO HAS OFFICIALLY NOTIFIED OPIC THAT NEW TAX IS OR MAY BECOME AN EXPROPRIATORY ACTION. PRESENTLY OPIC CARRIES INSURANCE ON DOLS. 75 MILLION OF CBG INVESTMENT.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 065291

9. AT PRESENT, HALCO REPRESENTATIVES ARE NOT CONCERNED ABOUT POSSIBILITY GOG MIGHT DEMAND CONTROL OF FOREIGN EXCHANGE ALONG LINES FRIALCO. HALCO VIEW RESTS ON TWO BASES: A) UNLIKE FRIGUIA AND FRIALCO, CBG AND HALCO ARE BOTH DELAWARE NOT GUINEAN CORPORATIONS; B) BANK OF AMERICA ACTS AS TRUSTEE IN ALL FOREIGN EXCHANGE TRANS-ACTIONS UNDER AGREEMENTS SIGNED BY GOG, EACH MEMBER FIRM OF HALCO, OPIC, EXIM BANK AND IBRD; THUS HALCO DOES NOT BELIEVE TRUST AGREEMENT COULD EASILY BE AMENDED.

10. THERE HAVE BEEN SOME INDICATIONS THAT A PRINCIPAL THRUST OF EXPORT TAX IS AIMED AT SOVIET BAUXITE OPERATION. WE HAVE SOME INFORMATION THAT GOG AND SOVIETS HAVE HELD DISCUSSIONS BUT FAILED TO AGREE ON APPLICATION OF TAX. SOVIETS ALLEGEDLY HAVE TAKEN LINE THAT BAUXITE GOING TO

USSR IS MINED AND EXPORTED BY GUINEAN COMPANY, THEREFORE
GOG AS EXPORTER SHOULD PAY TAX, RATHER THAN USSR AS
BUYER.

11. COMMENT: ALCOA AND MARTIN-MARIETTA REPS HAVE
INFORMED DEPT THAT HALCO INTENDS TO TAKE FIRM STANCE
AGAINST EXPORT TAX IN NEGOTIATIONS WITH GOG. HALCO
REMAINS WILLING TO NEGOTIATE HIGHER BAUXITE EXPORT PRICE
THAN THAT ESTABLISHED IN CONTRACT. IF AGREEMENT IMPOSSIBLE
REPS SAID HALCO WILL REQUEST ARBITRATION, WHICH HOWEVER,
IS UNLIKELY TO BE ACCEPTABLE TO SEKOU TOURE. WE EXPECT
ISSUE TO COME TO A HEAD IN CONAKRY WITHIN MATTER OF
WEEKS. INGERSOLL

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BAUXITE, EXPORTS, BUSINESS FIRMS, TAX BURDEN
Control Number: n/a
Copy: SINGLE
Draft Date: 22 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE065291
Document Source: CORE
Document Unique ID: 00
Drafter: MGWYGANT:MR
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750101-0409
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750324/aaaaavvr.tel
Line Count: 182
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 06 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 MAY 2003 by ElyME>; APPROVED <24 SEP 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GUINEAN BAUXITE SITUATION FOR CHARGE FROM AF/W
TAGS: EMIN, EINV, GV, US, FRIALCO, HALCO
To: CANBERRA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006